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SUBJECT: ARGENTINA ECONOMIC AND FINANCIAL REVIEW, MARCH
2-6, 2009

¶1. (U) Provided below is Embassy Buenos Aires' Economic and Financial Review covering the period March 2-6, 2009. The unclassified email version of this report includes tables and charts tracking Argentine economic developments. Contact Econoff Chris Landberg at landbergca@state.gov to be included on the email distribution list. This document is sensitive but unclassified. It should not be disseminated outside of USG channels or in any public forum without the written concurrence of the originator. It should not be posted on the internet.

Highlights

-- GoA and Farmers Reach Tentative Agreement
-- Nominal February Tax Collection up a disappointing 16%
y-o-y
-- BCRA hopes to free about \$4 billion of excess lending capacity to boost export financing
-- Moody's: GoA should meet obligations in 2009, but beware 2010
-- Argentine trade plunges in January 2009
-- U.S./Argentine bilateral trade leaps in 2008
-- February Labor Demand Index stable, but near historical lows

CAMPO STRIKE

GoA and Farmers Reach Tentative Agreement

¶1. (SBU) GoA officials and local farm group representatives met March 3 in a continuation of negotiations begun the previous week (February 24) aimed at avoiding another devastating campo crisis (Ref FAS cable). The main participants in the talks were Minister of Production Debora Giorgi, Minister of Interior Randazzo, Secretary of Agriculture Cheppi, and the presidents of the Rural Society of Argentina, Confederation Rural Argentina, Agriculture Federation of Argentina, and Coninagro. President Cristina Fernandez de Kirchner (CFK) surprised participants by showing up half-way through the discussions. The two sides signed a MOU covering GoA measures to assist the farm sector agreed upon the previous week. These include support measures for the wheat, dairy, and beef sectors, but exclude cuts in soy export taxes. Several farm leaders and farm groups expressed disappointment with the result, as their key goal is to lower export taxes on soybeans. CFK emphasized that export taxes on soybeans and sunflower were not going to be lowered due to social and fiscal reasons. GOA reluctance to budge on the key soybean export tax issue places farm leaders in a difficult position, since many of their constituents believe

this agreement falls short of resolving this long-lasting conflict. The meeting was preceded by rumors that the GOA would create a national grain marketing agency, with the purported purpose of protecting farmers with small- to medium-sized holdings from large grain exporters. However, farm groups suspect it would serve to pressure farmers to sell their crops. The GOA alleges that farmers hold up to nine million tons of soybeans from the 2008 crop (private sources estimate 5 - 6 million tons) and exports of these soybeans would generate over US\$ 1 billion in tax revenue. Although the two sides did not discuss this issue during the meeting, GoA sources told local press that it remains under consideration, though some think it is a bluff disguised to motivate farmers to sell their stocks.

12. (SBU) On March 10, GOA officials and farm group representatives met for a third consecutive weekly meeting with Production Minister Debora Giorgi and Interior Minister Florencio Randazzo. However, little progress was made. The debate over export duties reportedly moves to Congress next week, as the farmers threaten to go back on the protest path.

FISCAL

Nominal February Tax Collection up a disappointing 16% y-o-y

13. (SBU) On March 4, the GoA announced that February tax collection increased only 16% y-o-y to ARP 22.7 billion.

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While this was in line with the BCRA consensus survey estimate of ARP 22.6 billion, the increase was negative in real terms after taking into account an annual rate of inflation that most private analysts estimate in the range of 18-20%. February revenues include about ARP 1.1 billion resulting from the nationalization of the private pension funds (AFJPs). (Following the nationalization, all retirement contributions from formal-sector employees who previously belonged to AFJPs are now directed to the Argentine social security administration, ANSES, and counted as GoA revenue.) Excluding this amount (which provides a better comparison with February 2008), tax collection would have increased only 11% y-o-y in nominal terms. The main drivers of February tax collection were labor contributions (paid by employers), which increased 30% y-o-y to ARP 3 billion, and VAT, which increased 14% y-o-y to ARP 6.7 billion. Income tax revenue declined 1% y-o-y to ARP 3.7 billion and export tax revenue fell 6% y-o-y to ARP 2.4 billion. The weak February growthrate (compared to February 2008, s y-o-y growth rate of 47%) reflects the rapid deceleration of economic activity, lower international prices for Argentina, s exports, and reduced agricultural production.

FINANCE

BCRA hopes to free about \$4 billion in excess lending capacity to boost export financing

14. (SBU) The BCRA issued March 5 circular (N 4920) announcing that it will auction options to have access to repurchase-agreement contracts in dollars in order to encourage banks to use their foreign-currency deposits for export financing. With this move, the BCRA hopes to mobilize about \$4 billion for export financing. (This is roughly the amount of dollars available for lending in the financial system, including what banks keep on deposit at the BCRA). The BCRA seems to be reacting to GoA desire to improve export flows following a poor performance in January (see trade item below) and expectations that trade flows will decline even

further in coming months. Under the BCRA plan, banks will buy options to borrow dollars from the BCRA for one-year at a fixed rate. When a bank decides to exercise the option, it can borrow from the BCRA as long as it shows an increase in dollar lending and a decline in its dollar deposits between the date the option was acquired and the date the option is exercised. Thus, the bank that acquires those options can safely increase dollar lending and exercise the option to recover dollar liquidity if necessary to respond to dollar deposit outflows. According to the BCRA, this option will help bridge the maturity gap between (medium-term) dollar loans and (short-term) dollar deposits.

Moody,s: GoA should meet obligations in 2009, but beware 2010

15. (SBU) Moody,s rating agency issued a press release March 2 stating that the GoA should be able to meet its debt obligations in 2009. However, it warned that if the global crisis continues to dampen revenues and weaken the GoA,s fiscal position, the risk of default increases in 2010. Moody's noted that the GoA,s real tax intake so far in 2009 has dropped dramatically from last year,s levels (see above item) due to the sharp economic downturn. (Many private analysts expect the Argentine economy will contract in 2009.) On top of the fragile domestic economic environment, Moody's highlighted that the international crisis is resulting in lower demand and lower prices for Argentina,s exports. It warned that significantly increasing expenditures ahead of October Congressional elections would further weaken GoA fiscal accounts.

TRADE

Argentine trade plunges in January 2009

16. (SBU) Argentine exports and imports both fell sharply in January, down 36% and 38% respectively compared to January 2008. The January trade surplus of \$971 million was down 27% y-o-y. The 12-month rolling surplus through January was also down, at \$12.8bn compared to \$13.2bn in December. The lower value of exports was principally due to lower volume, down

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25% y-o-y, but also due to a 14% drop in prices. Agricultural exports were down 56% by value and 40% by volume (27% by price) y-o-y; in particular, cereal exports fell 72% y-o-y, led by a 78% plunge in wheat exports. Exports of processed agricultural goods dropped 25% y-o-y, with soy oil exports declining 43% y-o-y. Raw soybean exports, however, were down only 6% and soy meal exports fell 15%. Industrial exports declined 29% y-o-y, despite an average price increase of 9%, as volume fell 35%.

17. (SBU) The drop in import value was driven by a 38% y-o-y volume decrease, with just a 1% price decrease, reflecting a severe slowdown in domestic demand. Imports of capital goods declined 47% y-o-y. Imports of consumer goods dropped 37% y-o-y, including auto imports, which were down 60% y-o-y. Imports of all other consumption goods fell 24%. Trade with leading partner Brazil was down even more sharply than overall trade, with exports falling 51% and imports down 54%. On exports, a 69% decrease in primary product exports led the way, driven by a 73% fall in cereal export. The reduction in imports was spread evenly across all categories.

U.S./Argentine bilateral trade leaps in 2008

18. (SBU) The United States International Trade Commission,s recently published 2008 trade data revealed a surprising 29% annual increase in bilateral U.S./Argentine trade. U.S. exports to Argentina were up 28.8% y-o-y to \$7.5 billion in 2008, making the U.S. Argentina,s third most important source of imports. U.S. imports from Argentina were up 29.5% y-o-y to \$5.8 billion, making the U.S. the third largest

Argentine export market. The U.S. ran a surplus of roughly \$1.7 billion with Argentina, 26% higher than in 2007. This performance may be hard to sustain in 2009, not only because of the global crisis -- which has hit Argentina particularly hard on the export side, because of both decreased demand and the significant drop in the prices of its key export commodities, such as soy -- but also because one particular product contributed an outsize share of 2008 growth in exports to the U.S. That product was biodiesel, with exports increasing from \$34 million in 2007 to \$772 million in 2008. This growth was at least partially driven by the U.S. imports of biodiesel for subsequent export to Europe. Utilizing a practice known as "splash-and-dash," U.S. importers were allowed to mix a small amount of domestic diesel fuel with imported biodiesel to receive a tax credit from the USG, with no restriction on subsequent export of the product. The legislative provision that allowed this practice was repealed in October 2008. Also, high U.S. fertilizer exports to Argentina in 2008 may have been encouraged by the temporary elimination of the Argentine import tariff imposed on these products, which had been 6%; imports of that product were roughly \$160 million in 2008 after being zero in 2007.

Labor

February Labor Demand Index stable.

19. (SBU) The February Labor Demand Index calculated by Torcuato Di Tella University declined a negligible 0.35% m-o-m in February to 63.1 points. The index is down 43% y-o-y and is well below the 88.2 point historical average, further evidence of the sharp economic slowdown. The index has been declining since early 2008 and is currently at roughly the same level as in December 2001 (albeit still about 34 points above its lowest-ever level in March 2002). According to Di Tella University, prospects for the labor market are negative for 2009, with expected declines in labor demand from companies, which would generate lower employment and a rise in unemployment rate. Argentine National Statistics Agency INDEC recently announced that the unemployment rate reached 7.3% during the last quarter of 2008, a level widely questioned by private analysts, who estimate that the "true" unemployment rate will reach as high as 11% in 2009. (Note: Di Tella bases the index on comparisons of job vacancy announcements printed in the two largest newspapers of the country.)
WAYNE